



FINANCING CALIFORNIA'S LONG TERM WATER SUPPLY NEEDS

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Joint Interim Hearing of the Senate Committee on Agriculture and Water Resources and the Assembly Committee on Water, Parks, and Wildlife

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Mr. Chairmen and Members of the Committees:

My name is David Yargas. I am a Water Resources Analyst with the Environmental Defense Fund (EDF) in Oakland, as well as a founder and co-chair of the Central Valley Project Restoration Fund Roundtable. I want to thank you for the opportunity to testify today on the oftentimes arcane subject of financing for California's long-term water supply needs. I would like to start by noting that you and your staffs deserve considerable credit for bringing needed focus and attention to this crucial topic, and for attempting to move the ball forward in a consensus-based fashion. That, alas, does not seem to be the preferred manner of the day in California water, but it is, EDF believes, the only way that real long-term progress can and will be made.

I cannot help but note the irony of the fact that, as we meet here today, Congress is busy marking up H.R. 1906, the CVP Reform Act of 1995. Among other salient features, that Act seeks to reduce revenues to the environmental Restoration Fund created by the 1992 CVP Improvement Act by anywhere from several million to more than \$30 million per year over time. Thus, as we struggle today in California to find long-term financing solutions for our water-supply future, Congress is busy undoing significant parts of the foundation. That, needless to say, is a very unfortunate situation.

I mention this situation first because a crucial pre-condition for progress in meeting California's long-term water supply needs is and remains secure, sufficient, and sustained long-term funding for environmental protection and restoration. These particular needs require us to move beyond a more traditional "water project" orientation (where, for example, debt-oriented financing is often predominant) to the more complex and creative domain of user-financed water, land, and habitat acquisition funding. You should know that a host of related management issues are a current focus of work by the Restoration Fund Roundtable, a diverse stakeholder forum whose objective--effective implementation of the CVP Restoration Fund--touches on most significant aspects of California water.

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The Restoration Fund and, more recently, the Category III fund established as part of the 1994 Bay/Delta Accord are particularly noteworthy in that both helped to "bridge gaps" between identified environmental needs and the willingness (or ability) of more traditional water project beneficiaries to meet those needs directly. Both represent a new dimension in the business of California water, and while both have their problems and detractors, they are, I believe, here to stay (along with other similar funds) as core components of any meaningful and realistic suite of long-term water supply solutions.

Perhaps that is my main point here today: don't forget the environment. While some may believe that "environmental safeguards" are passe and either readily ignored or effectively dismissed, it would, I believe, be a grave mistake to proceed with that set of assumptions. Nowhere is this so clear as in the realm of bond initiatives: it will take all of us, working together towards an elusive but imperative consensus, to convince a skeptical public to support our collective efforts. Thus, to the extent that leveraged public-sector funding remains a crucial part of any long-term solution, "the environment" will continue to be a player, whatever the politics of the day.

With these points as a backdrop, I would like to offer a few summary thoughts on what EDF believes it will take to move the ball forward on the financing front. In doing so, I will sidestep many of the more complex financing alternatives addressed by others (such as Fred Cannon from the Bank of American and Zach McReynolds from CALFED), and focus instead on several specific issues.

- First, as regards the CVP Restoration Fund, EDF and others ~~we~~ will work actively and aggressively to protect the Fund's revenue base and long-term integrity. In our view, any losses that result from ill-advised efforts in Congress will simply have to be offset by equivalent gains in the Bay/Delta long-term process.
- Second, absent significant near-term progress, the ongoing lack of state cost sharing contributions under the CVPIA will soon result in reduced federal funding for a variety of CVPIA-authorized projects and programs, most of which have real benefits for California's environment and for California water users alike.
- Third--and notwithstanding some important organizational advances--there has been a distressing lack of progress in honoring the Bay/Delta Accord's Category III funding commitments beyond those obtained in December 1994. Of course, if excuses and after-the-fact interpretations had dollar value, that Fund would be brim full by now. But in our view, a commitment is a commitment, and we expect it to be honored in full before any other Bay/Delta funding options move forward. (I should note that at least certain aspects of the Category III commitment could, if creatively fulfilled, help to meet the State's CVPIA cost-sharing commitments as well--we don't have to wait for a bond measure.)

- Fourth, the Category III institutional platform should be structured with long term funding in mind, i.e., as a model and foundation for whatever comes next (over and above current commitments) as part of the CALFED process. Long-term coordination with the CVP Restoration Fund is also imperative. To this end, a premium should be put on creative institutional options for long-term funding, i.e., establishment of an independent, creative, and balanced forum or authority that can and will make smart, economically, and ecologically justified management and expenditure decisions.
- Fifth, the final EIR for the so-called Monterey Agreement--a set of "closed-door" principles for completion and financial restructuring of the State Water Project as well as certain San Joaquin Valley land sales--is scheduled to be certified later this week. Suffice it to say that both the Agreement and the final EIR are riddled with procedural flaws and unresolved substantive concerns, not the least of which is their failure to include the environment as a co-equal stakeholder from the outset. EDF renews its request that the signatories to the Agreement postpone final action thereon and engage in a true consensus-based dialogue on SWP reform. We also respectfully request that you and/or other appropriate Committee's of the legislature hold oversight hearings on all aspects of the Monterey Agreement principles as soon as possible.
- Sixth, all Californian's should keep a watchful eye on efforts by the so-called Central Valley Project Authority (a consortium of federal water contractors) to purchase the Central Valley Project from the federal government for their own control and benefit. It should come as no surprise that the prospect of exclusive water-user control of 20 percent of California's water (by the very same entities who are working to overturn the CVPIA) raises significant and legitimate environmental concerns. It is perhaps less obvious, but no less crucial, that urban residents, hydropower interests, fishing communities, Indian Tribes, and others realize that they, too, have a great deal at stake. And while EDF has gone on record before Congress supporting an appropriate devolution of CVP assets and interests, the Authority's current proposal and process (focusing narrowly on "rightsholders" as distinct from "stakeholders," for example) is neither "appropriate" nor in California's best long-term interest.
- Last but by no means least, EDF would like to endorse in concept and approach the recently announced framework agreement on voluntary water transfers between the San Diego County Water Authority and the Imperial Irrigation District. While such a deal is necessarily complex in scope, it could, if coupled with construction of a new Colorado River aqueduct, bring significant relief to the over-committed Bay/Delta ecosystem. The financing and opportunity costs of these and related infrastructure investments will have to be closely scrutinized in the months and years ahead, along with a host of other details--but this case alone demonstrates the power of the water rights marketplace as a crucial aspect of California's long-term water future.

There are, needless to say, numerous other water financing issues that warrant detailed consideration and discussion, ranging from the important role of cost-effective demand-side "water supply" options to the long-term fiscal and environmental implications as well as opportunity costs of such ill-advised projects as the proposed Auburn Dam. But in the interest of time, I will close with a simple request: whatever you do to give shape and depth to SB 900, please make sure that its movement through the legislature awaits the development of a long-term suite of consensus-oriented solutions which include both public and private financing options. EDF, for one, remains committed to such a process, and we look forward to working with you, and with others here today, to develop a financing package that works for all concerned.

I would be happy to answer any questions.